

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

DOCKETED
JUN 2 1983

ATARI, INC., a Delaware
corporation, and
MIDWAY MFG. CO., an
Illinois corporation,

Plaintiffs,

vs.

NORTH AMERICAN PHILIPS CONSUMER
ELECTRONICS CORP., a Tennessee
corporation, PARK
TELEVISION, d/b/a PARK MAGNAVOX
ENTERTAINMENT CENTER, an Illinois
partnership, and ED AVERETT, an
individual,

Defendants.

Civil Action No. 81 C 6434

The Honorable George N. Leighton

MEMORANDUM IN SUPPORT OF PLAINTIFF MIDWAY MFG. CO.'S
MOTION FOR DISQUALIFICATION OF REUBEN & PROCTOR
AS COUNSEL FOR DEFENDANTS

I. Preliminary Statement

Plaintiff, Midway Mfg. Co. ("Midway") has filed this motion to disqualify the law firm of Reuben & Proctor ("the Reuben firm") from representing the defendants in this action involving Midway's claim that the defendants have infringed Midway's PAC-MAN copyright. The basis of the motion is that, during the pendency of this action, David W. Maher, a member of the Reuben firm, represented a trade association including Midway's parent as a member, participated in conversations with one of Midway's copyright lawyers concerning actions the association could take to combat infringers of copyrights in video games and in fact was present when Midway's lawyer discussed Midway's strategy in this case.

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Under any theory, Mr. Maher's actions in representing the association in matters relating, inter alia, to enforcement of the PAC-MAN copyright mandate disqualification of the Reuben firm under Canons 4 and 9 of the Code of Professional Responsibility. Mr. Maher, in his role as Association counsel, was privy to the confidences of Midway's copyright counsel with respect to the legal theories involved in the enforcement of Midway's PAC-MAN copyright. Indeed, the minutes of Association meetings reveal that the scope of protection of the PAC-MAN copyright—one of the issues in this case—was discussed between Mr. Maher and A. Sidney Katz, one of the lawyers representing Midway in this case.

There can be no prejudice to defendants in disqualifying the Reuben firm, since the Reuben firm filed its appearance only a few weeks ago, over one and a half years after this action was filed.

II. Statement of Facts

This is an action for infringement of Midway's copyright in its PAC-MAN video game, which was filed in November, 1981. Since the inception of this action, the defendants have been represented by the law firm of Neuman, Williams, Anderson & Olson, of Chicago, Illinois. A preliminary injunction is currently in effect against defendants, and discovery is being conducted by both the plaintiffs and the defendants.

On May 5, 1983, the Reuben firm entered its appearance in this action on behalf of the defendants. Immediately after being apprised of that firm's appearance in the instant matter on behalf of defendants, Midway commenced investigation of a motion to disqualify on the conflict of interest grounds discussed below.

At the time this action was filed, David W. Maher, a partner in the Reuben firm, served as legal counsel to The Amusement Device Manufacturers Association (now known as The Amusement Game Manufacturers Association and hereinafter referred to as "the Association"). The Association is a not-for-profit national amusement game manufacturer trade association with approximately twelve company members. Among other things, the members of the Association have considered together strategy to combat infringement of copyrights in video games manufactured by the members.

Plaintiff Midway, through its parent, Bally Manufacturing Corporation ("Bally"), was accepted as a member of the Association on February 25, 1982, three months after this action was filed (Exhibit A, Minutes of Special Meeting of the Association, June 7, 1982). Bally officially joined the Association by May 20, 1982 (Exhibit B, Minutes of Special Meeting of the Board of Directors, May 20, 1982). Bally has been a substantial and active member of the Association since it joined. Glenn Seidenfeld, Vice-President and General Counsel of Bally joined the Board of Directors of the Association in June, 1982, and became a member of the Executive Committee of that Board in September, 1982. Since joining the Association, Midway, through its parent Bally, has paid membership dues to the Association, a portion of which have been used to pay legal fees to David Maher and the Reuben firm.

As counsel to the Association, Mr. Maher was present at virtually all Association meetings. His responsibilities included monitoring and responding to adverse legislation (Exhibit C, Association Press Release, September 8, 1981), developing model ordinances to change restrictive laws (Id.), drafting amicus curiae briefs in pertinent

litigation (Exhibit D, Brief on behalf of Association in City of Mesquite v. Aladdin's Castle, Inc.,¹ 455 U.S. 283 (1982)), and most significantly, serving as counselor and facilitator in Association discussions regarding the legal protection of members' intellectual properties, including copyrights.

On April 23, 1981 the Association Board directed its members and their attorneys to report to Mr. Maher their "past and ongoing involvements" in "their pursuit of the copiers" [infringers] (Exhibit E, Minutes of Board of Directors Meeting, April 20, 1981). Minutes of Association meetings demonstrate that member companies reported these involvements and specifically shared litigation theories and strategies. (Exhibit E). On October 14 and 15, 1982, meetings were held in the offices of the Reuben firm between Mr. Maher and Association member company attorneys. On October 15, 1982 the group addressed issues concerning the legal aspects of game protection, including the scope of copyright protection of the PAC-MAN audiovisual work (Katz Affidavit ¶9). Among those present at the meeting was A. Sidney Katz, one of Midway's copyright counsel, who has represented Midway in numerous PAC-MAN infringement actions. The Association minutes confirm that Mr. Katz, Mr. Maher and other member attorneys discussed this action against the very defendants which are now represented by the Reuben firm "in the context of the treatment of the elements of infringement of a copyrighted audiovisual display" (Exhibit F, Minutes of Association Meetings, October 14 and 15, 1982, p. 6).

In addition to meetings with Mr. Maher, Mr. Katz has engaged in direct correspondence with Mr. Maher for the purpose of furthering Midway's interest in its audiovisual games. See Exhibits G, H, I, J and K.

¹Aladdin's Castle, Inc. is a wholly owned subsidiary of plaintiff Midway's parent corporation, Bally Manufacturing Corporation.

III. ARGUMENT

There can be no question that the Reuben firm's representation of defendants in the present action violates Canons 4 and 9 of the American Bar Association's Code of Professional Responsibility ("CPR")², which respectively (i) prohibits the actual or potential disclosure of client confidences and (ii) requires attorneys to avoid the appearance of impropriety. For the reasons set forth below, the Reuben firm should be immediately disqualified from representing the defendants in the present action.

A. Canon 4 Mandates Disqualification of the Reuben Firm

Canon 4³ prohibits any representation which would place a lawyer in the position of violating the confidences of a client or a former client. Where, as here, a lawyer represents a party in a lawsuit against a former client, the lawyer will be disqualified

²The conduct of attorneys practicing before the court is governed by the American Bar Association's CPR. Jurisdiction to enforce the CPR exists because of the court's regulatory power over the attorneys who are members of its Bar. Cannon v. U. S. Acoustics Corp., 398 F.Supp. 209 (N.D. Ill. 1975), aff'd in part, rev'd in part, 532 F.2d 1118 (7th Cir. 1976).

³Canon 4 provides that "A Lawyer Should Preserve the Confidences and Secrets of a Client." "Confidential communications between an attorney and his client, made because of the relationship and concerning the subject matter of the attorneys employment, are generally privileged from disclosure without the consent of the client, and this privilege outlasts the attorney's employment. Canon 37." ABA Opinion 154 (1936) (emphasis added).

The Illinois Code of Professional Responsibility, adopted by the Supreme Court of Illinois, effective August 1, 1981, expressly provides that this duty extends "during or after termination of the professional relationship...." Rule 4 - 101(b) (emphasis added).

under Canon 4 upon proof (1) of an attorney-client relationship with the former client, and (2) that the present representation involves subject matter which is "substantially related" to the subject matter of the prior representation, Schloetter v. Railoc of Indiana, Inc., 546 F. 2d 706, 710 (7th Cir. 1976).

As discussed in detail below, it is beyond doubt that there was an attorney-client relationship between the Reuben firm and Midway during the pendency of the present litigation as the result of the Reuben firm's prior representation of the Association. Moreover, there can be no question that the subject matter of the Reuben firm's prior representation is "substantially related" to the issues in this lawsuit, where Midway's copyright counsel specifically discussed the subject matter of this lawsuit as well as the lawsuit itself with a lawyer from the Reuben firm at an Association meeting which was called to address the question of how best to protect the copyrights of the Association members.

1. The Reuben Firm's Representation of the Association Resulted in an Attorney-Client Relationship Between That Firm and Midway

It is without question that an attorney-client relationship existed between Midway and the Reuben firm by virtue of the Reuben firm's representation of the Association. The Seventh Circuit has held, in similar circumstances, that the attorney for an association of convenient store franchisees represented all the members of the association because the "sole purpose" of the association was that of "furthering the common interest of the members" and because the members had "benefitted" from the

attorney's representation. Halverson v. Convenient Food Mart Inc., 458 F.2d 927 (7th Cir. 1972). See also Philadelphia Housing Authority v. American Radiator & Standard Sanitary Corp., 294 F.Supp. 1148 (E.D. Pa. 1966) (privilege case); United States v. American Radiator & Standard Sanitary Corp., 278 F.Supp. 608 (W.D. Pa. 1967) (privilege case).

In Westinghouse Electric Corp. v. Kerr-McGee Corp., 580 F.2d 1311 (7th Cir. 1978), the Seventh Circuit disqualified a law firm from representing a plaintiff in a suit against defendants who were members of a trade association represented by the law firm. The Court held that disqualification was necessary because the law firm had acquired confidential information of the members in its representation of the association unequivocally bearing on the subject of the pending action against the defendant members. See also, Glueck v. Jonathan Logan, Inc., 653 F.2d 746 (2d Cir. 1981) (affirmed trial court's determination that a firm representing an unincorporated trade association must be disqualified from representing an individual client in a suit against a corporation, one division of which was a member of the association).

As was the fact in Westinghouse, the Association in this case is a not-for-profit organization which has absolutely no interest other than that of representing the rights of its members. One of the Association's functions is to promote the legal protection of its member's goods and services. Mr. Maher's representation of the Association consisted of legal services in support of that effort. It is plain then, that, as a practical matter, Mr. Maher represented the interests of the Association members in protecting the copyrights in their video games. This self-sameness between association and members was recognized by the Supreme Court in another context in NAACP v. Alabama, 357 U.S. 449, 459 (1959) when the Court stated:

[The NAACP] and its members are in every practical sense identical. The Association...is but the medium through which its individual members seek to make more effective the expression of their own views.⁴

The facts and circumstances of this case conclusively establish that the Reuben firm was in an attorney-client relationship with Midway. As pointed out in Westinghouse, the "professional relationship for purposes of the privilege for attorney-client communications 'hinges upon the client's belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional advice'" Westinghouse, 580 F.2d at 1319 (quoting McCormick on Evidence (2d ed. 1972), §88, p. 179). The Reuben firm performed legal services which were intended to benefit Midway with respect to the protection of its copyrighted PAC-MAN video game. Mr. Maher requested and obtained confidential information from Midway's copyright counsel in its performance of those services. (Katz Affidavit, ¶6,8,9,10,11). Indeed, Midway's counsel discussed Midway's legal positions, evidence, strategy of litigation and documentation relating to the PAC-MAN copyrights (Katz Affidavit ¶6). Mr. Maher initiated and had communications with Midway regarding its copyright infringement litigation (Katz Affidavit, ¶11). Mr. Maher and Midway's copyright counsel, Mr. Katz, directly corresponded with each other regarding Midway's interest in various legal matters, including the protection of its video games against copiers (Katz Affidavit ¶14, and Exhibits G,J,K). Midway's counsel believed, and was justified in believing, that the Reuben firm was representing its interests in these matters, including the protection and enforcement of the PAC-MAN copyright (Katz Affidavit, ¶6,14).

⁴See also In Re Professional Hockey Antitrust Litigation, 371 F. 2 (E.D. Pa. 1974) where the Court recognized that an attorney's services to a client are not "independent" of the services rendered to the members of that association and compelled the World Hockey Association to reimburse the World Hockey Association attorney on a quantum meruit basis for legal services rendered on behalf of the WHA in bringing an anti-trust suit.

As further noted by the court in Westinghouse, "a fiduciary relationship may result because of the nature of the work performed and the circumstances under which confidential information is divulged." Id. at 1320. The dealings between the Reuben firm and Midway in relation to the copyright protection of audiovisual works were clearly the type of dealings which give rise to the duties of confidentiality and loyalty in the Reuben firm. It was a relationship of trust and reliance (Katz Affidavit ¶14, and Exhibits G,H,I,J, and K letters between Midway's counsel and Mr. Maher). One of the stated objectives of the Association is to share information regarding strategies in on-going litigation (Exhibit E). The Association is a small organization with members sharing particular and united interests in the legal protection of intellectual property. The court in Glueck discussed the likelihood that members of that trade association would share confidences at its meetings notwithstanding the fact that the members were competitors and the organization was quite large (100 members). Clearly, in this case, where the organization is quite small and dedicated to its particular united interest, the environment was conducive to the free communication of information necessary for Mr. Maher's effective representation of the members' interests. Indeed, Midway, as well as other members, in fact submitted such sensitive and confidential information to Mr. Maher upon the expectation that such information would enable Mr. Maher to render legal service to those members in furtherance of their interests (Katz Affidavit ¶16). Because of the nature of the services performed and the circumstances under which confidential information was divulged, an attorney-client relationship between the Reuben firm and Midway resulted.

Since an attorney-client relationship resulted, the confidential communications with Mr. Maher must be protected. Of course, the confidences are considered privileged under the rules of evidence. As was stated in Matter of Grand Jury Subpoena, Etc., Nov. 16, 1974, 406 F. Supp. 381, 386 (S.D.N.Y. 1975):

[W]here there is consultation among several clients and their jointly retained counsel, allied in a common legal cause, it may reasonably be inferred that resultant disclosures are intended to be insulated from exposure beyond the confines of the group. That inference, supported by a demonstration that the disclosures would not have been made but for the sake of securing, advancing, or supplying legal representation, will give sufficient force to a subsequent claim to the privilege.

Further, the ethical obligation under Canon 4 is broader than the evidentiary privilege and expressly provides that an attorney is bound to guard the confidences of his client "without regard to the nature or source of information or the fact that others share the knowledge." CPR, EC 4-4. In these circumstances, it is clear that the confidences shared between Midway and Mr. Maher must be protected.

2. There Is a Substantial Relationship Between the Subject Matter of the Reuben Firm's Prior Representation of Midway and Its Present Representation of Defendants

The standard for disqualification of an attorney who undertakes litigation against a former client is the "substantial relationship" test. Cannon v. U. S. Acoustics, 398 F.Supp. 209, aff'd in part and rev'd in part, 532 F.2d 1118 (7th Cir. 1976). A substantial relationship exists if the subject matter of the litigation at issue falls within the scope of the prior representation, if it is reasonable to infer that confidential information would have been given to the attorney in those matters and if that information is relevant to the issues raised in the litigation pending against the former client. LaSalle National Bank v. County of Lake, 703 F.2d 252 (7th Cir. 1983). All of these criteria are present here.

First, the Association minutes establish that Mr. Maher's representation of the Association and Midway included legal services regarding the protection of copyrights (Exhibit E). Mr. Maher specifically participated in discussions regarding infringement of the member's copyrights in general, and specifically discussed the subject matter of this case, including the scope of copyright in this case based on direct copying and on a "derivative work theory" (Katz Affidavit ¶9,10,11).

Second, it is clear that Mr. Maher was privy to confidential information regarding Midway's legal analysis and strategies in this case and in protecting the PAC-MAN copyright in general, because A. Sidney Katz, one of Midway's copyright lawyers, discussed these matters in Mr. Maher's presence (Katz Affidavit ¶10,11). While it is not required that Midway actually reveal a piece of confidential information which Mr. Maher actually received, Schloetter, supra, 546 F.2d at 710, this receipt may be presumed in these circumstances where the actual matters present in this litigation and this case itself were discussed. Further, confidential information presumptively possessed by Mr. Maher will be imputed to the other members of the Reuben firm. Id.

The third prong of the substantial relationship test requires no discussion. The information revealed to Mr. Maher by Midway is not only relevant to the issues raised in the pending litigation, it is precisely on point. Clearly, then, since the substantial relationship has been unequivocally shown, the motion for disqualification should be granted.

B. Public Confidence In the Bench and Bar Requires
Disqualification Under Canon 9

Canon 9 provides that "A Lawyer Should Avoid Even the Appearance of Professional Impropriety". This Canon requires disqualification "when an actual appearance of evil exists," Fred Weber, Inc. v. Shell Oil Co., 566 F.2d 602 (8th Cir. 1977), even without proof of wrongdoing. Westinghouse Electric Corp. v. Rio Algom Limited, 488 F.Supp. 1284 (N.D. Ill.1978).


Disqualification based on Canon 9 has received ample support in the Seventh Circuit. In LaSalle National Bank v. County of Lake, supra, 703 F. 2d at 253, the Seventh Circuit affirmed the district court order of disqualification which was based on the appearance of impropriety as a result of the defendant's former relationship with an associate of the firm whose disqualification was at issue. Further, the Seventh Circuit relied on Canon 9 in Schloetter, supra, in disqualifying a law firm from representing the defendant in an action claiming infringement of a reissue patent merely because a former partner in a satellite office of the firm had represented the plaintiff in the original patent application six years before the suit at issue was filed.

Surely, in this case, when a present partner in the Reuben firm during the litigation, represented Midway in matters substantially related to the litigation at issue, an appearance of impropriety exists. Permitting this appearance would inhibit clients from confiding in their lawyers and undermine public confidence in the legal profession.

IV. CONCLUSION

For all of the above reasons, Midway respectfully urges this motion be granted and that the Reuben firm be disqualified from the instant case and all related litigation.

Respectfully submitted,


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CERTIFICATE OF SERVICE

It is hereby certified that a copy of the foregoing MEMORANDUM IN SUPPORT OF PLAINTIFF MIDWAY MFG. CO.'S MOTION FOR DISQUALIFICATION OF REUBEN & PROCTOR AS COUNSEL FOR DEFENDANTS and AFFIDAVIT OF A. SIDNEY KATZ in support thereof have been served by hand delivering a copy to:

Theodore W. Anderson
Neuman, Williams, Anderson & Olson
77 West Washington Street
Chicago, IL 60602

James. H. Alesia
Reuben & Proctor
19 South LaSalle Street
Chicago, IL 60603

and

David E. Springer
Kirkland & Ellis
200 East Randolph Drive
Chicago, IL 60601

on this 31st day of May, 1983.

A handwritten signature in cursive script, reading "Jacqueline G. Leiner", written over a horizontal line.